

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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Bush Tax Cuts Reduced the Surplus

Dear Democratic Colleague,

Republicans' latest attempt to avoid blame for raiding the Medicare surplus relies on an argument that the Bush tax cut didn't reduce the surplus very much. Instead, they say that the slowing of the economy and spending increases of last year have caused Medicare trust fund money to be spent.

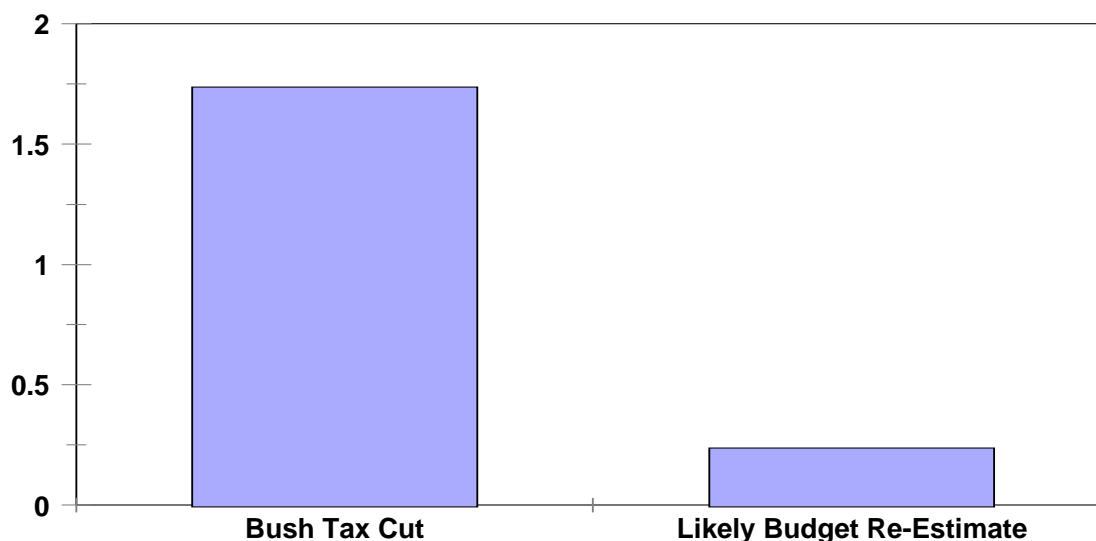
This is fuzzy math. As the accompanying charts show, the Republican argument requires one to accept the idea that a big reduction of the surplus is less important than a small one.

The 10-Year Surplus

Certainly, any claim that the tax cut hasn't had a profound effect on the long-term surplus is silly. The tax cut consumes \$1.736 trillion of the 10-year surplus counting both the direct

What Reduced the Surplus?

Trillions of Dollars, FY 2001-2011



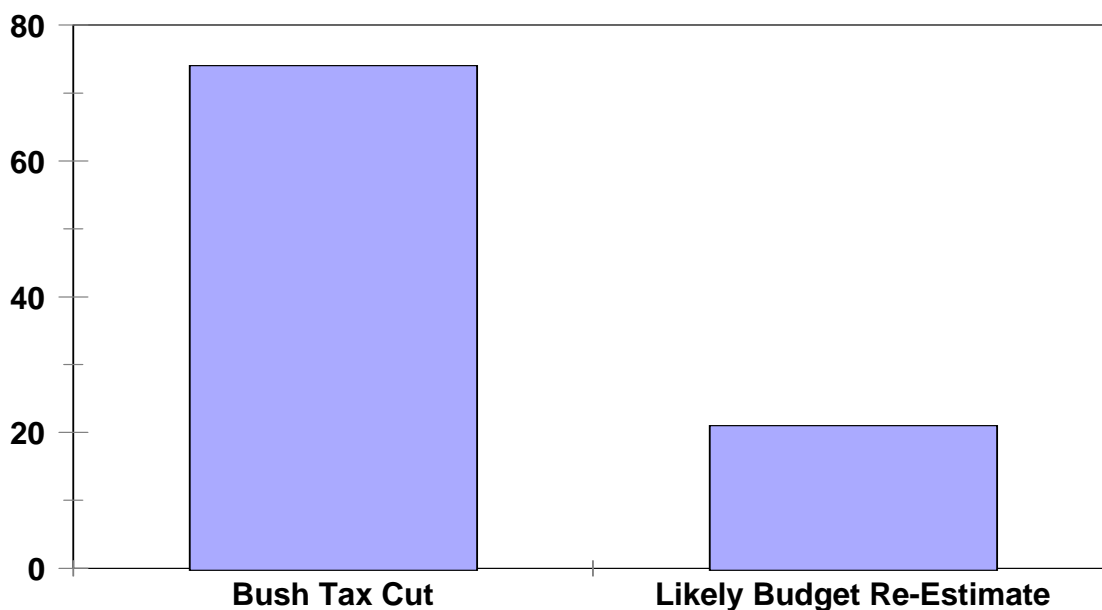
revenue loss and the higher spending for interest on the public debt. This figure rises even higher, to over \$2 trillion, if one assumes that the entire tax cut doesn't sunset in 2010. The cost is higher still if one assumes the inevitable renewal of popular expiring tax breaks and repair of the problems that the tax cut creates with the alternative minimum tax.

Even taking at face value the tax bill with its implausible sunsets, though, it is clear that its effect on the long-term surplus overwhelms any likely effect of the economic slowdown. Even if the economy currently is heading into a full-fledged recession it would only reduce the 10-year surplus by about \$300 billion. In the analyses that Democrats have put forward that show the tax cut eating into Medicare, we have assumed only a modest slowdown, which reduces the 10-year projection by \$237 billion.

The 2001 Surplus

Still, Republicans argue that in the current fiscal year, when the economic weakness is occurring, their tax cut is only a minor factor in the raid on Medicare. This, too, is incorrect. The tax cut this year is scored at \$72 billion, whereas the effect of the economic slowdown that Democrats have assumed is only \$21 billion.

What Reduced the Surplus? **Billions of Dollars, FY 2001**

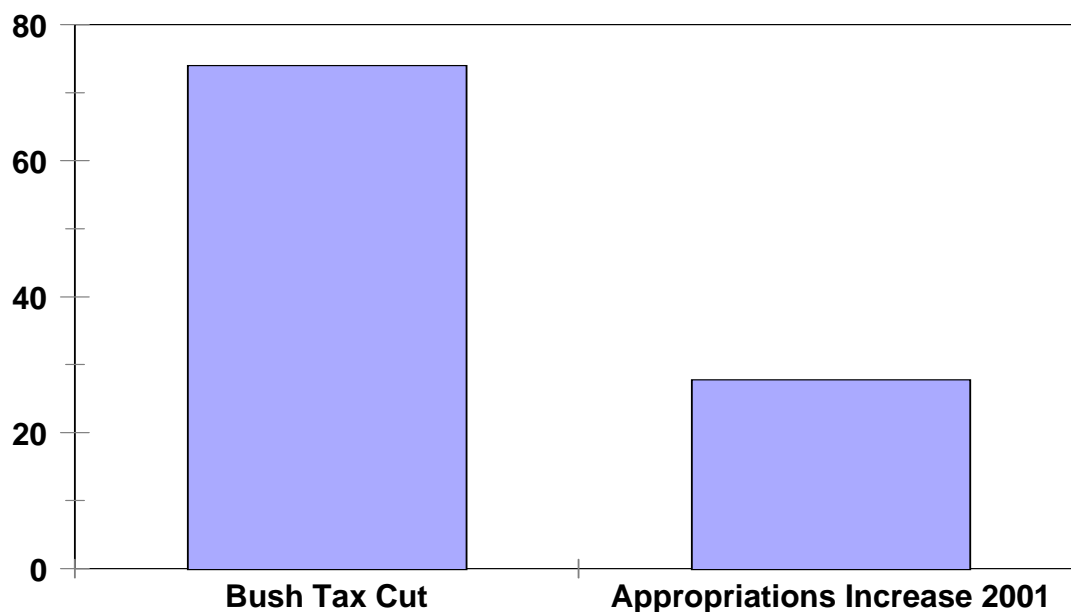


The tax cut's ostensible \$72 billion cost this year is somewhat misleading because it includes the effect of a two-week timing shift of corporate tax payments that moved \$33 billion of receipts from 2001 to 2002. However, adjusting for this gimmick merely shifts the tax cut's raid of Medicare from this year to next. In either case, the tax cut easily overwhelms any effect on the surplus from the slowdown that Democrats have assumed in our analyses.

But what about the effect of last year's large increase in appropriated spending, Republicans ask. This argument suffers three flaws. First of all, Republicans already knew what spending bills had passed last year when they heedlessly pushed the excessive Bush tax cut this year.

Secondly, the Republicans controlled both Houses of Congress when the 2001 spending bills were passed, and they voted to increase appropriated spending beyond what President Clinton had proposed in his budget. Thirdly, even if one looks at the entire 2001 appropriations increase from the 2000 level, it still pales by comparison with the tax cut, as the chart above shows.

What Reduced the Surplus? **Billions of Dollars, FY 2001**



Trying to Have It Both Ways

Republicans can't claim credit for pushing through their large tax cut with its large effects without also accepting responsibility for the tax cut's large effects on the rest of the budget. They have ignored Democrats' warnings since the beginning of the year that the excessive Bush tax cut will jeopardize the Social Security and Medicare trust fund surpluses, not just for this year but also for years to come.

Sincerely,

John M. Spratt
Ranking Democratic Member